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Realty Stock Review

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Ranking Reviews: California Equity REITs Escape Quake

The violent earthquake which rippled through Northern California Oct. 17 did very little damage to properties owned by REITs in the Bay Area. That's good news, because shares of REITs with large property holdings there — notably BRE Properties and Western Investment RET — sagged in first trading following the shock. Most have now recovered.

The good record bespeaks the fact that REITs generally own newer properties built under stringent quake-resistant building codes. Here's a brief rundown on field reports:

BRE Properties — A small wall crack and ceiling tile damage at Hub Center in Fremont; no damage elsewhere.

Landsing Pacific Fund — No damage at 8 buildings; all older buildings had been retrofitted to resist quakes.

Property Trust of Amer. — No major damage at Holiday Inn—Fisherman's Wharf, where PTR owns the land.

REIT of Calif. — No damage to two apartments securing mortgages in Belmont, Cal., atop the San Andreas fault.

Western Investment RET — Some plate glass breakage at a restaurant in Santa Cruz, near the quake's epicenter. A Watsonville supermarket closed for interior cleanup. No significant damage elsewhere.

While quake news captures the headlines, our reviews of nine equity REITs this issue suggest that cash flow growth and total return targets are likely to fall a bit in 1990. We are estimating that these nine will likely return about 12.6% to investors over the next 12 months, composed of about 7.3% current yield and 5.4% growth in cash flow, which should translate into higher share prices.

Despite all the uncertainty surrounding cash flow growth for 1989, our estimates now show a 9.5% CFS gain for this group excluding non-comparable Landsing Pacific, a REIT resulting from a late 1988 merger of three smaller REITs. That's a good showing which belies the bears on public realty stocks. Here's a table showing components of our estimated total return: CFS growth for 1990 and current dividend yield:

Stock	Est. 1989	CFS 1990	Chng. %	Div. Yld	Tot. Ret.
Bradley	\$0.64	\$0.75	+17.2%	6.3%	+23.5%
BRE Prop.	2.44	2.50	+2.5	8.2	+10.7
Burnham	1.45	1.55	+6.9	6.8	+13.7
Federal Rl.	1.30	1.40	+7.7	6.0	+13.7
First Union	1.37	1.44	+5.1	8.5	+13.6
Landsing	0.80	0.86	+7.5	9.6	+17.1
REIT Calif.	1.40	1.45	+3.6	8.8	+12.3
Weingarten	2.15	2.25	+4.7	5.8	+10.5
<u>Western Inv.</u>	<u>1.50</u>	<u>1.55</u>	<u>+3.3</u>	<u>7.4</u>	<u>+10.7</u>
TOTAL	\$13.05	\$13.75	+5.4%	7.3%	+12.6%

Two cautions: First: these numbers are estimates to use as guides to selection; nothing is guaranteed. Second, our estimates are generally on the low side of Wall Street projections. A year ago we saw a 6% CFS gain in this group and the final numbers for all major equity REITs likely will be higher. We don't want to mislead you with lowball estimates but we don't think you should view real estate markets with great exuberance right now.

The table above suggests **Bradley Real Estate** has the best potential over the next year. Yet BTR stock has been a soggy performer of late, largely because aggressive expansion and modernization of its shopping centers aren't yet visible on the bottom line. We expect results of this work to start showing up next year.

Landsing Pacific Fund is reviewed for the first time. A new REIT created by merger of three smaller trusts in Dec. 1988, LPF management is bustling with plans to focus on Pacific West Coast properties and perhaps double LPF's size over two-three years. It sells at such a deep discount to historic cost that it should benefit from Oil Patch recovery.

First Union Real Estate was hampered early this month following an analyst's adverse report. Just days after the report, FUR reported a strong rise in Sept. qtr. cash flow and seems to be taking a more aggressive stance on boosting operating cash flow. We take a contrarian view on FUR.

Weingarten Realty has agreed to pay \$100 mil. for 1.9 mil. sq.ft. of Portland, Ore. shopping centers, subject to a very hard look at the properties. As noted in our review, this might change WRI's image as an Oil Patch shopping center play, but WRI has so much going for it that the stock is a strong buy.

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BRE PROPERTIES INC. (BRE:NYSE) RANK A

A major institutional quality equity REIT, BRE owns a diversified portfolio located in Calif. and the Far West. Holdings are 44.5% apartment, 22.5% shopping center, 10.5% light industrial, 8% each warehouse and hotel, and 5% office, based on estimated market value. BRE is self-administered after severing ties with initial sponsor BankAmerica Corp. in Oct. 1987.

BRE now shows strong signs of resuming growth after digesting overbuilt markets at most properties. It recently swapped several appreciated-value buildings for new multi-tenant properties deemed to have more potential, and will book about \$1.47/sh. gains in the Oct. qtr. Net operating cash flow rose 9% to \$2.44/sh. in BRE's July 1989 year, best CFS showing in five years, and we think a small dividend uptick has low probability but might come within the next year. Total return is estimated at 11% the ensuing 12 months. We retain our A Ranking and continue in Portfolio Selector.

Gut Issue: Will BRE boost its dividend anytime soon from the \$2.40/sh. rate? While BRE's improving CFS now permits a payout nudge, we think it's likely BRE may defer a boost until it can build a liquidity cushion in face of competitive property markets. And while this restrains near-term enthusiasm for a boost, we also think payout will be higher a year from now.

BRE's 1989 operating net cash flow of \$2.44/sh. exceeded by 1.7% the \$2.40 dividend in fiscal 1989, first time in five years that operating cash flow supported payout. During that long drought, BRE supported dividends by paying capital gains from previous years.

Stronger leasing. BRE's CFS has recovered on stronger leasing in Calif. and Wash. BRE boosted occupancy by 3.8%, to 94.1%, in its 3.26 mil. sq.ft. of owned properties by gaining a net 123,660 SF leased space. Biggest gain came when BRE leased 126,000 SF in a Pomona, Cal., warehouse, although this gain was

partly offset by declines totaling 41,000 SF at one light industrial and one warehouse building. Occupancy held firm or gained at all other properties.

In the Oct. 1989 qtr., BRE exchanged a \$1.5 mil. leaseback on land under a Pasadena, Cal. office/hotel complex for fully leased 93,460 SF Sorrento Technology Center in San Diego, at \$1.08/sh. gross gain. A \$15.5 mil. mortgage on the complex, which had been earning 13%, was repaid. The deal should increase BRE's longer-term potential on this cash. BRE used part of the \$15.5 mil. loan repayment, plus tax-deferred swap of a 233,000 SF warehouse, to acquire 240-DU Parkwood Apts. in Mill Creek, Wash., a Seattle suburb.

Current Value: BRE estimates current net asset value rose 3.5% to \$36.75/sh. fully diluted as of July 1989.

Advice: This strong internally managed portfolio should perform well longer-term. Estimated total return the next 12 mon. is 11% (8% dividend, 3% CFS growth). With shares selling at 21% discount to current value and a dividend uptick likely, we advise **buy on any dips below \$30.** (KDC)

BRE:NYSE Rank A July years 7.88 mil. shs.
Price: \$29.13 Div. \$2.40 Yld.: 8.2%.

Yr.	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1986	\$2.26a	\$2.22	\$2.40	\$33.88	\$24.25	9.9-7.1%
1987	1.89a	2.17	2.40	33.75	29.00	8.3-7.1
1988	1.87	2.23	2.40	31.75	24.25	9.9-7.6
1989	2.03	2.44	2.40	31.75	29.13	8.2-7.6
1990E	2.10	2.50	2.40	31.63	29.75z	

a-Plus sale gains: '86-\$1.86; '87-\$0.63. z-To date.

Share data: Institutions own 53.6%; Insiders: 1.5%. Avg. weekly volume: 16,675 sh.
Finances 7/89 (Mil.\$): Debt: \$76M; Equity: \$133.4M; Accum. deprec.: \$21.5M; Equity plus deprec.: \$19.66/sh.

Address: One Montgomery St., San Francisco, Cal. 94104. (415) 445-6530.

BRADLEY REAL ESTATE TRUST (BTR:ASE) RANK A

An established REIT formed in 1961, BTR is aggressively expanding and renovating its properties to boost returns. BTR owns five community shopping centers with 938,000 sq.ft., mostly in the Midwest and New England, plus land leased for a major downtown mixed use complex in Minneapolis.

To expand the market for its stock, BTR has just listed on the American Stock Exchange and has split the stock twice the past three years. BTR also completed its first stock offering in over 20 years in June, selling 815,000 new shs. at \$13. Although

shares have declined since the offer, they continue to be Ranked A and are included in Portfolio Selector. We see about 21% total return the next 12 months.

Gut issue: When can BTR demonstrate underlying growth with a dividend boost? BTR has held its dividend level at 68¢/sh. for over two years while it undertakes an ambitious upgrading and expansion of several shopping centers. One major job, a 12% expansion of Hood Commons, Derry, N.H. to 217,000 sq.ft., will be completed late this year. Previously BTR expanded

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Richfield (Minn.) Hub center, acquired in 1988, to 133,000 SF, upgrading previously underleased space.

With completion of the June 1989 stock offering, BTR is exposed to a larger investment community which seems to want tangible evidence of BTR's underlying growth. By financing the expansions with equity instead of debt, BTR improves chances for higher cash flow and dividends in the next six-12 months, and thus we estimate a modest boost in payout within the next four qtrs. (see table).

Assets: Shopping centers. BTR focuses upon upgrading and retenanting community shopping centers, some of which BTR has owned for 15 to 25 years. As a result BTR has a low \$34.2 mil. or \$36.44/SF invested in centers at cost. Shopping centers are located in St. Paul and Richfield, Minn.; Augusta, Me.; Derry, N.H.; and Florissant, Mo. The Missouri center will be renovated soon and we expect BTR to acquire additional centers with renovation potential.

Development leaseback: BTR owns a 1.17 acre downtown Minneapolis site which it has leased to BCE Development Corp. of Canada, which is building a 800,000 SF mixed-use project. Neiman-Marcus is anchoring 190,000 SF retail, and Inter-Regional Financial Group, a regional brokerage firm, will anchor the 610,000 SF, 37-story office tower. BTR will get base rent plus a share of rents above base amounts. The project should be completed in 1991. BTR also owns one Boston office building with 22,000 SF at \$59.86/SF cost.

Results: Net cash flow fell about 10% in the first half of 1989, due mainly to the Richfield and Hood center expansions.

We expect cash flow to be essentially flat in 1989 but to rise about 15% to 75¢/sh. in 1990.

Current value: BTR has never estimated current net asset value of its shares but Trustees set an \$18.67/sh. value in adopting a shareholder rights put plan (an antitakeover device) in 1986. With two centers renovated since then and the Minneapolis development lease property under construction, we estimate current value is above \$18.67/sh.

Advice: With shares down from the recent offering and a dividend uptick expected, we expect about 21% total return (6% dividend, 15% CFS growth) the next 12 months. Shares are buys for long term growth potential. (KDC)

BTR:ASE	Rank A	Dec. yrs.	4.18 mil. shs.
Price: \$10.75	Div.: \$0.68	Yld.: 6.3%	

Yr.	Oper.EPS	Op.CFS	Div.	High	Low	Yld.Range
8/86	\$0.37a	\$0.65	\$0.52	\$11.75	\$6.75	7.7-4.4%
8/87	0.22a	0.59	0.68	16.00	9.38	7.2-4.3
8/88	0.28a	0.65	0.68	15.50	8.00	8.5-4.4
12/88b	0.05	0.18	0.17	13.75	12.25	5.6-4.9c
12/89E	0.15	0.64	0.68	15.25	11.25z	6.0-4.5z
12/90E	NE	0.75	0.72			

a-Plus property sale gains: '86-\$0.01; '87-\$0.21; '88-\$1.11. b-Four months. c-Based on annualized dividend. z-To date.

Share data: Institutions own 5.4%; Insiders: 11.5%. Avg. weekly volume: 26,250 shs. **Finances 6/89 (Mil.):** Debt: \$15.7M; Equity: \$16.5M at cost; Accum. deprec.: \$9.9M; Equity plus deprec.: \$26.4M or \$6.32/sh. Campbell & Dillmeier, investment banking affiliate of Audit, advised Trustees on an unsolicited offer to buy BTR's assets, subject to some but not all liabilities, in June 1989. Equity & shs. outstanding adjusted for 6/30/89 offering of 815,000 new shs. at \$13. **Address:** 250 Boylston St., Boston, MA 02116. Phone: (617) 421-0750.

BURNHAM PACIFIC PROPERTIES, INC. (BPP: ASE) RANK A

An equity REIT, BPP has prospered by focusing on offices and retail properties located in San Diego, Calif. Started in 1963 as a master limited partnership, BPP has moved rapidly to become a significantly larger REIT player after converting to a REIT in Mar. 1987. Key steps: In June 1988 it acquired a sister trust via merger, and two public offerings in June 1988 and Jan. 1989 raised a total \$55.3 mil., to bring shareholders' equity to \$74.8 mil. BPP sells above our estimated \$18.50/sh. current net asset value, due to strong San Diego property markets. A 14% total return is estimated the next 12 months. Shares are upgraded to A Rank and remain in Portfolio Selector.

Gut Issue: Could a California slowdown hurt undiversified BPP? Until now, BPP's location in the hot San Diego and California markets has boosted cash flow and dividends. But naysayers argue that a small flattening in California's housing market presages a downturn in commercial property markets. Any slowdown will expose inflation and overpricing in properties, they contend.

Yet California has grown at twice the national rate for four

decades, and its entrenched slow-growth adherents plus San Diego's limited supply of buildable land combine to erect formidable barriers to unlimited building. Even with these barriers, San Diego has attracted significant new building.

BPP has limited risk to this market by buying (a) offices which are fully leased to one or two major tenants, and (b) retail properties where the leasing strength of BPP's adviser, old line San Diego realty firm John Burnham & Co., give it an edge in leasing.

In the past 1-1/2 years BPP bought new, smaller retail centers before they are fully leased and filled them via strong leasing. Example: The anchor supermarket at BPP's 138,000 sq.ft. Mesa Shopping Center has just renewed a 20-year lease coupled with a 45% expansion to 32,400 SF.

BPP is also shifting more to office and in June sold its 70,000 SF Town & Country Shopping Center for a 47¢/sh. gain and reinvested proceeds (via a taxfree exchange) into a 28,600 SF single-tenant office.

Operations and results: As result, BPP's gross cash flow per share (CFS) rose 30% to 71¢/sh. in the first half of 1989 and we see the year coming in at about \$1.45/sh. A further 7% gain to about \$1.55/sh. seems in store for 1990. With the current dividend running at \$1.36, BPP is paying 94% of gross CFS and has some room for a modest boost next year. The 1988 payout was 45.5% taxfree capital return.

Properties: BPP owns a net 458,400 SF in five office buildings, now about 99% occupied; net 798,900 SF retail in 11 neighborhood and community shopping centers, now about 95-96% occupied; and the land and a 50% interest in the 258-room Beverly Garland Hotel in Hollywood. Offices are with one exception leased to large single tenants such as Alcoa and Fisher Scientific; about 300 tenants occupy retail space.

Current value: We think BPP shares have current value of about \$18.50/sh., mainly because most properties are newly acquired; value could be as much as \$3/sh. higher because of institutional demand for quality Calif. properties and hot markets for retail centers.

Advice: We expect BPP to add some debt leverage near-term, which should let rent increases flow to CFS. With expected total return of about 14% (7% yield, 7% cash flow growth), BPP should outpace the general market and merits current purchase. Ranking is boosted to A and shares continue in Portfolio Selector. (KDC)

BPP: ASE		RANK A	Dec. years	5.89 mil. shs.		
Price: \$20.00		Div. \$1.36	Yld. 6.8%	Price X CFS: 13.8		
Yr.	Op.EPS	Op.CFS-w	Div.	High	Low	Yld.Range
9/85	\$0.50	\$1.03	\$1.03	\$15.00	\$14.42	7.1-6.9%
9/86	0.41	1.03	1.07	16.33	12.50	8.6-6.6
3/87a	0.06a	0.98A	1.06A	NA	NA	
12/87b	d0.01b	1.17A	1.15A	21.50	15.25	7.5-5.3
12/88	0.31	1.25	1.29	20.25	16.38	7.6-6.2%
12/89E	NE	1.45	1.36	21.00	18.00z	7.6-6.5z
12/90E	NE	1.55	1.38			

a-6 mon. b-9 mon. w-Gross cash flow before debt payments. z-To date. A-Annualized.

Share data: Institutions own 18.8%; Insiders: 10.1%. Avg. weekly volume: 30,500 sh.
Finances 6/89 (Mil.\$): Debt: \$70.6 mil. Equity: \$70.4 mil. (\$12.48/sh.) Debt/equity ratio: 1.0-1.
Address: 610 W. Ash St., Box 2910, San Diego, CA 92112. (619) 236-1555.

FEDERAL REALTY INVESTMENT TRUST (FRT: NYSE) RANK A

FRT is a niche owner of older strip and mall shopping centers, primarily in the Northeast (Washington, Philadelphia, N.J.). FRT buys older centers in fully developed urban locations where there's little or no land for potential competitors. Then FRT modernizes the centers and their tenant mix, aggressively adding value thru rolling over old leases, upgrading tenant mix, refurbishing, and expanding space where the site permits.

That strategy has generated an unbroken 20-year stream of cash flow and dividend increases, and payouts have increased at 10.4% annually over the past five years. FRT now owns 9.1 mil. SF in 41 shopping centers. We're estimating 14% total return from FRT over the next 12 mon. (6% yield, 8% CFS growth). The A Ranked shares remain in Portfolio Selector.

Gut Issue: Can a soggy retailing outlook for 1990 slow FRT's growth? So far 1989 has been a treacherous year for retailers, especially the highly leveraged ones involved in LBO and takeover bids. FRT hasn't been hurt badly, although the Miller & Rhoads anchor at its Richmond, Va. mall filed Ch. XI in the summer; M&R obtained financing for Christmas inventory. With some economic slowdown highly possible in 1990, FRT's near-term cash flow gains could be labored. However FRT's 1,185 retailers are heavily concentrated in bread-and-butter convenience lines, the least susceptible to economic downturns. Our call: we are not concerned about a shallow recession.

Properties: FRT currently owns 41 centers with 9.12 mil. net SF boasting 95% occupancy at Aug. 31, 1989. In June FRT moved to increase its commitment to the upscale suburban Rockville, Md. market by buying an 18-acre retail and office

complex for \$28.1 mil. FRT will spend \$17 mil. to redevelop the site into a 225,000 SF retail complex called Federal Plaza, with three anchors and 50 speciality retailers. Leasing interest is strong and FRT hopes to open in late 1990.

Major renovated properties contributing to 1989 CFS include 570,000 SF Shops at Willow Lawn, Richmond, Va., where FRT converted a strip center into an enclosed mall; and 242,000 SF Willow Grove center outside Philadelphia. In Dec. 1988 FRT bought a leasehold interest in seven centers with 1.6 mil. SF in N.J. and Long Island for \$85.5 mil. capitalized value. New anchors at various centers include Marshall's, 33,000 SF at Laurel (Md.) center; and Office Depot, 25,000 SF at Brainard Ctr., Chattanooga.

FRT is working out of two problems: 446,000 SF Northeast Plaza in Atlanta where occupancy fell to 70% after two large anchors vacated (one has been replaced); and Town & Country in Springfield, Ill., where Burlington Coat has taken 50,000 SF and management sees 90% occupancy soon. Both centers likely will be sold when occupancy stabilizes.

Current asset value: We believe FRT's centers are worth \$21.50 to \$24/sh. fully converted on a break-up basis, based on current cash flow and value in the \$70-\$75/SF range. The estimate gives no credit for potential value creation at Federal Plaza or other recent FRT purchases and renovations, so shares look cheap to us. Centers are carried on FRT's books at \$466.3 mil. or \$51.13/SF.

Cash flow and Dividends: Net operating cash flow was \$1.18/sh. in 1988 before \$0.29 capital gains and \$0.175/sh.

accretion of premium on its \$100 mil., 5.25% Eurodebt. This accretion partially supports the dividend. We see 1989 basic cash flow rising about 10% to \$1.30/sh. and our early fix sees 1990 CFS rising another 7.7% to \$1.40 (which is below most Wall Street estimates). Payout has been boosted for the past 22 years running and some increase is possible next spring.

Advice: Buy for long-term value creation by a seasoned management team. FRT should do well in a modestly growing retail market. The recently acquired New Jersey centers and Federal Plaza have excellent value creation potential. FRT remains a premier Northeastern shopping center niche holding, with an estimated 14% total return (6% yield plus 8% CFS growth). Shares are a buy on dips. (KDC)

FRT:NYSE Rank A Dec. years 16.35 mil. shares
Price: \$23.25 Div. \$1.40 Yield 6.0% Price/CFS: 14.7

	Op.EPS	Gains	Op.CFS	Div.	High	Low	Yield
1986	\$0.65	\$0.61	\$1.17	\$1.05	\$23.75	\$16.13	6.5-4.5%
1987	0.47	—	1.29	1.14	25.75	17.25	6.6-4.4
1988	0.39	0.29	1.18	1.23	22.25	19.00	6.5-5.5
1989E	NE	0.52z	1.30	1.39	26.00	20.75z	6.7-5.4z
1990E	NE	NE	1.40	1.42			

z-To date.

Share data: Institutions own 30.3%; insiders 11.5%. Avg. weekly volume: 80,150 sh.
Finances 6/89 (Mil.\$): Debt and lease obligations: \$259M; Convertibles \$108.4M; Equity at cost: \$148.1M; Accum. deprec. \$53.6M; Total equity + deprec.: \$201.7M or \$12.35/sh. Debt/equity ratio 1.8-1 at cost. Equity & shs. adjusted for 9/28/89 offering of 2.0M shs. at \$24.

Address: 4800 Hampton Lane, Bethesda, MD 20814. (301) 652-3360.

FIRST UNION REAL ESTATE INVEST. (FUR: NYSE) RANK A

FUR is easily the most controversial stock reviewed this issue. A major nationwide owner of institutional grade shopping centers and offices, FUR reports flat occupancies in many markets. Operating cash flow should rise about 8% this year but covers only 88% of the \$1.50/sh. dividend, leaving capital gains to cover the balance.

FUR owns a net 6.2 mil. SF in 17 enclosed malls and 1.775 mil. SF in 9 urban office towers. It recently began buying apartment projects. To combat overbuilding FUR is spending heavily to remodel properties, and reports stronger leasing in some markets, although anchor space at three shopping centers remains vacant.

The shares came under selling pressure early this month, partly because its largest holder, a British pension plan, decided to exit and partly because a West Coast institutional research firm issued a negative report projecting flat CFS and lowering its estimate of current asset value to \$20.50. FUR bought 166,000 sh. in the downturn (at about \$16.50 or \$2.7 mil., we estimate). We estimate about a 13.7% total return the next 12 months (8.7% dividend, 5% CFS growth). We retain the shares at A Rank in Portfolio Selector.

Gut Issue: With institutions bailing out on flat CFS expectations, why do we rate FUR shares a buy? Our two reasons for liking depressed FUR are little changed since our last review in April:

1. Underlying asset values. Whatever the true value of FUR's assets, the recent stock price slump undoubtedly makes FUR more attractive to a cash purchaser. FUR has no poison-pill takeover defenses and says it would put an all-cash tender before shareholders.

At the heart of the wide disparity in current NAV estimates is valuation of FUR's 1.45 mil. sq. ft. unleased space (416,000 SF in offices, 1,030,000 SF in shopping centers). Clearly this space is worth more than zero. The negative West Coast report's estimate of \$20.50 current net asset value accords some value to

this space. Our \$26.25/sh. estimate is about 28% above the West Coast report, the major differences being (a) we capitalize retail cash flow at a slightly lower rate and (b) we see higher value in retail vacancies in Clarksville, Tenn. and Abilene, Tex. but less in Marysville, Cal.

Management puts our estimate at the lower end of value ranges it has heard from other Wall Streeters. It says shares are "significantly undervalued" at today's \$17.13 price. Another way of looking at FUR is that its \$1.37 estimated 1989 net cash flow would return 5.2% to a buyer at our \$26.25 estimate after servicing \$223.5 mil. debt in place. An entrepreneurial buyer might deem this an adequate return if it thought it could boost property occupancies quickly.

2. Potential leverage in vacant space. With occupancies standing at 83.4% for shopping centers and 76.6% for offices at the end of 1988, FUR went into this year with nearly 1.45 mil. SF unrented, as follows:

Retail: FUR could add about 22¢ to CFS by leasing all its 1.03 mil. SF vacant retail space *except* 388,000 SF at Peach Tree Mall, Marysville, Cal. (outside the earthquake zone). We think this space is unrentable until class action litigation with the state of Calif. over a 1986 flood is settled; trial begins in Jan. 1990. The remaining vacant 640,000 SF is about one-third anchor space and the rest small mall shops.

Because small shops should rent when anchors are aboard, FUR focuses on two problems: At Two Rivers Center in Clarksville, Tenn., FUR faces a double or nothing situation regarding 120,000 SF anchor space: prospective anchors want to know identity of the other anchor, and although FUR is very close to getting two anchors to sign, nothing has been formalized yet. At Westgate Towne Ctr. in Abilene, Tex., filling one large vacancy probably awaits stronger Texas business. A third potential trouble spot: Penney will move from Mountaineer Mall in Morgantown, W. Va. when its lease expires in 1992.

Aside from these three soft spots, FUR has upgraded 13 of

its 17 centers over the past three years. FUR added 63,000 SF to Fairgrounds Square, Reading, Pa. in 1988 to good traffic. Crossroads Mall, 428,000 SF in Ft. Dodge, Iowa, was modernized in 1988 and leasing interest is strong. Valley Mall in Yakima, Wash. and Mall 205 in Portland, Ore. both were also renovated in 1988.

Offices and other properties: FUR could add 16¢ to CFS by leasing its vacant office space, but again this doesn't seem in the cards soon because office vacancies are clustered in sick Oil Patch markets. About 40% of FUR vacancy is in anemic Oklahoma City, and another 20% in weak Shreveport and Indianapolis. The flip side is that FUR's three Cleveland offices with 799,000 SF are in a strong market. A joint venture to build a major downtown office on vacant land it owns stumbled in the summer over city approvals, but there's some hope that a scaled-down building can be revived. Even a smaller building would add \$1/sh. or more to value.

Cash flow and dividends: Net operating cash flow rose 7% in the nine mon. to Sept. and we are boosting our estimated CFS to \$1.37/sh. in 1989. Part of this reflects leasing of space in Abilene, Tex. and acquisition of a 323-DU Dayton apartment in

July 1989. FUR also sold its 190,000 SF Atlanta office for 51¢ share gain in the Sept. qtr. Our early forecast is for about a 5% CFS gain to \$1.44/sh. in 1990, based primarily on expected gains in retail leasing.

Advice: Cash flow gains likely will slow in 1990, depending upon leasing in key local markets. The recent price decline makes FUR more attractive as a takeover candidate for an all-cash buyer. FUR is a strong buy at current levels. (KDC)

FUR:NYSE RANK A Dec. yrs. 17.68 mil. shs.
Price: \$17.63 Div. \$1.50 Yld. 8.5% Price/CFS: 12.5

	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	\$1.18a	\$1.39	\$1.45	\$26.13	\$16.75	8.7-5.5%
1987	1.06a	1.29	1.50	28.50	16.00	9.4-5.3
1988	1.10a	1.27	1.50	25.50	17.50	8.5-5.5
1989E	NE	1.37	1.50	21.25	15.50z	9.7-7.1z
1990E	NE	1.44	1.50			

a-Plus capital gains: '86-\$0.22; '87-\$0.37; '88-\$0.29; '89 to date-\$0.66. z-To date.

Share data: Institutions own 36.4%; Insiders 1.7%. Avg. weekly volume: 112,200 sh.
Finances 6/89 (Mil.\$): Debt: \$223.8M; Equity: \$92.95M; Accum. deprec.: \$64.6M;
Equity + deprec. equals \$8.90/sh. Debt/equity ratio: 1.4-1.

Address: 55 Public Sq., #1900, Cleveland, OH. 44113. (216) 781-4030.

WEINGARTEN REALTY INVESTORS (WRI:NYSE) RANK A

WRI concentrates on buying or developing community shopping centers in Houston and the Southwest. WRI's ownership of 8.4 mil. SF retail space places it second (behind Federal Rlty.) among REIT shopping center owners. But WRI also owns a sizable land bank and portfolio of office, multifamily and industrial properties in Tex. and near-by states. WRI has maintained strong occupancy even at the nadir of the Texas economy by building only anchored centers and requiring 50% preleasing on new developments.

WRI's Houston focus may take a turn to the Pacific Northwest as WRI has agreed to buy 18 centers with 1.9 mil. SF in the Portland, Ore. area for \$100 mil. (or \$52.63/SF). WRI still must investigate the properties and completion is far from certain. Nor has WRI decided how to finance the prospective purchase, although WRI's access to capital is strong: in 1989 it raised approx. \$71 mil. in convertible notes. Stock continues at A Rank and in Portfolio Selector as a Southwestern recovery and shopping center play.

Gut Issue: Will the impending move to Oregon change WRI's image with investors? Since coming public in 1985, WRI has won investor esteem by its astute EPS and CFS growth amid the collapse of the Houston economy. Its success seemed to validate the wisdom that the best REITs were strong managers and developers in well defined regional and property niches.

Now WRI seems to have a unique opportunity to leap into a dominant position in the Portland market. WRI looked at the Portland package three years ago but the seller then had a very high asking price. This time around the seller has some cogent

personal reasons to liquidate assets, and WRI has the financial backing to swing a major league deal. WRI must decide whether to go ahead within 120 days (mid-February).

Houston operating leverage. However the Portland property purchase turns out, WRI also has huge potential operating leverage hidden in upgradable rents at its Houston centers, which account for 4.77 mil. SF or over half of WRI's retail holdings. These centers appear to rent for below \$7/SF on average, and that's a blended rate for both anchors (typically supermarkets) and smaller shops. A 10% rise in small-shop rents (estimated at about 50% of total space) could add about \$0.25-0.50/sh. to gross cash flow. We think that's not unreasonable because same-store sales are up about 6% for WRI and it's now getting about 5% rent increases on re-leasing. This recovery could boost EPS/CFS one-two years out and looks like the play in WRI's stock, even if the Portland proposal fades.

New projects. WRI is developing two new projects and renovating three other centers. The new projects are: (a) 97,000 SF 10 Blalock Square in Houston, serving a Katy Fwy. area with a population of 110,000. It will be anchored by a Fiesta Supermarket and is slated to open about June 1990. (b) Shops at Three Corners near the Astrodome (at O.S.T., Kirby and Main) is nearing completion of phase II, anchored by an 86,000 SF K mart. Phase III, currently under construction and expected to be completed in Nov., will contain 60,000 SF and be anchored by a 25,000 SF Office Depot and a 22,000 SF Pic 'N Save. The entire complex will contain 270,000 SF of gross leasable area, with 82% anchored by major tenants.

Current renovation projects are: The 33,400 SF University Plaza in Clear Lake City, which was vacated by Safeway last year; the Town and Country Shopping Center in Lubbock has been upgraded to 47,000 SF; and the 350,000 SF Caprock Center also in Lubbock is being upgraded and enlarged.

Current value: On a breakup basis we see WRI valued at \$23-24/share. The present premium is justified by: a) hope of Texas recovery and WRI's ability to position itself to benefit from such recovery, and b) appreciation in WRI's land, which we cannot value at present.

Operations and cash flow: WRI's shopping centers account for about 90% of revenue and closed the second quarter 94% occupied. That's a tribute to WRI's conservative policy of not starting a new center until it is 50% preleased. Houston-area competitors are averaging around 80%. The overall portfolio is 92% leased, about the level of 1985 during the most severe part of the Southwest real estate crisis. We see 1989 cash flow of about \$2.15/sh. and believe WRI should move to \$2.25/sh. in 1990, absent the Portland deal. WRI's \$1.76 payout is only 82%

of net cash flow, lowest ratio for major REITs. We sense WRI may boost payout significantly to bolster the share price.

Advice: Buy shares. We think a further cash flow rise is likely for 1990, without the Portland deal. WRI amply covers its payout and has plenty of room for dividend increases. (MJH)

WRI:NYSE RANK A Dec. yrs. 13.98 mil. shs.
Price: \$30.38 Div.: \$1.76 Yld.: 5.8% Price/Cash flow: 11.8

Yr.	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1986	\$1.27	\$2.05	\$1.56	\$25.00	\$19.50	8.0-6.0%
1987	1.25a	2.14a	1.60	28.38	18.50	9.0-5.0
1988	1.21a	1.89a	1.68	28.38	22.38	7.5-6.0
1989E	1.25	2.15	1.76	31.13	25.13z	6.2-6.9
1990E	1.30	2.25	1.84			

a-Excluding sale gains: '87-\$0.03/sh; '88-\$0.32/sh. z-To date.

Share data: Institutions own 36.0%; insiders 25.6%. Avg. weekly volume: 74,500 sh.

Finances 6/89 (Mil. \$): Debt: \$235.5M; Equity: \$96.0M; Accum. deprec.: \$97.0M; Equity + deprec.: \$13.80/sh. Debt/equity ratio: 1.2-to-1 at cost.

Address: 2600 Citadel Plaza Dr., P.O. Box 924133, Houston, TX 77292-4133.
(714) 866-6000.

WESTERN INVESTMENT REAL ESTATE TRUST (WIR:ASE) RANK A

WIR invests, mainly thru participating mortgages and leasebacks, in shopping centers in northern and central CA and NV, regions poised for rapid growth. Substantially all leases are triple-net. WIR netted \$74.5 mil. in a Sept. 1989 offering of 4 mil. shares at \$19.75 per share. Proceeds were used to reduce debt, acquire additional properties and fund prior commitments. WIR's initial visual inspection indicates that its properties escaped the San Francisco centered earthquake of Oct. 17 basically unscathed. Ranking stays at A and shares remain in Portfolio Selector.

Gut Issue: Can WIR continue getting 10% cash returns on shopping center purchases as California's boom ages? With its new funding WIR has agreed to acquire four new shopping centers, and is currently looking for others to invest the remainder. This new money allows WIR to continue to take advantage of the current Calif. growth surge.

But that surge may not last much longer. WIR has had to look further afield to find attractive investments, moving further from its San Francisco base. If the economy tanks, good deals would become a rare find. Additionally, WIR's anchor of choice, privately owned Raley's Superstores, may begin to develop its own centers instead of seeking centers built by outside investors.

On recent convertible loans and acquisitions, WIR has usually obtained a fixed return (mostly 10% or better) in early years. But properties held over three years are earning 15.9%, indicating the portfolio's rapid growth.

With proceeds from its recent offer, WIR has earmarked four Raley's anchored centers for acquisition. The 110,187 SF Eagle Station in Carson City, NV has closed and the 129,483 SF

Currier Square in Oroville, CA is quickly nearing completion. Two others, the Ukiah (CA) Crossroads and Yreka (CA) Junction (110,701 SF and 115,757 SF centers respectively) are expected to close before year-end. All four acquisitions have a planned initial yield of 10%.

In Fallon, NV, WIR is negotiating to acquire for \$4 mil. a new center being developed by Raley's across the street from WIR's Valley Plaza Center. Raley's is the current anchor in WIR's center but will master lease its existing space from WIR for the duration of its commitment. WIR would be guaranteed a base return of 9.5% for 25 years on a new lease with Raley's under negotiation.

Low capital cost. The key to WIR's recent growth is its favorable cost of capital. The Sept. 1989 offering had an effective 7.3% cost, giving WIR a 2.2%-2.7% spread on investments made at 9.5-10.0%. A year ago WIR raised \$75 mil. in a July, 1988 offering of 8% convertible debentures. This money was quickly invested at a good spread, but when it was exhausted, WIR was forced to return to higher cost variable bank-line financing until its latest equity offer. WIR now has approx. \$50 mil. available on its \$60 mil. bank-line.

Assets and operations. Net real estate investments of \$232 mil. at June 30, 1989, consisted of \$164 mil. or 70% equity ownership including leasebacks; \$65 mil. or 28% participating convertible loans; \$3 mil. or 1% direct financing leases. With the new acquisitions, Raley's Supermarkets anchor approx. 50% of WIR centers.

A potential cash flow loss at WIR's Ross Valley Medical Center in Larkspur, CA has been resolved. The property had

experienced problems with operators filing for Chapter 11 protection. A local hospital is now renting the building at substantially identical terms as the previous tenant.

Current asset value: With the bulk of properties purchased recently (a plus in an earthquake zone because they are built to resist quakes), we see value at about \$19/share.

Advice: Buy shares. New investments come in around 10% and new 1989 investments of approx. \$50 mil. should add about 6¢-7¢ per share to CFS. Participations and percentage rents are icing. WIR's equity funds will provide for another year of 10% cash flow growth, if the California economy stays on its current track. (MJH)

WIR:ASE Rank A Dec. years. 15.97 mil. shares.
Price: \$18.50 Div.: \$1.28 Yld.: 6.9% Price/Cash flow: 12.9

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1986	\$1.01a	\$1.15a	\$1.09	\$26.13	\$19.00	5.7-4.2%
1987	1.07	1.27	1.165	20.50	13.38	8.7-5.7
1988	1.13a	1.37a	1.27	19.63	16.00	8.0-6.5
1989E	1.20	1.50	1.35	21.00	17.13z	7.9-6.4z
1990E	1.28	1.55	1.43			

a-Plus sale gains: '86-\$0.07; '88-\$0.03. z-To date.

Share data: Institutions own 29.3%; insiders 3.2%. Avg. weekly volume 100,700 sh. Finances 6/89 (Mil.\$): Debt: \$76.7M; Equity: \$221.5M; Accum. deprec.: \$12.3M; Equity + deprec: \$14.64/share. Debt/equity ratio: 0.33-1. Shs. and equity adjusted for 9/19/89 sale of 4.0 mil. shs. at \$19.75/sh.

Address: 3450 California St., San Francisco, CA 94118. (415) 929-0211

LANDSING PACIFIC FUND (LPF:ASE) RANK B

Formed via the Dec. 1988 merger of three smaller REITs, LPF owns 28 office, industrial and retail properties in the West Coast, Mountain, and Southwest. LPF owns 2.38 mil. SF at an average cost of \$54.55/SF. Invested assets of \$133.3 mil. are 33% light industrial, 24% shopping center, 22% business park, and 21% office. By location, they are 61% Pacific West Coast, 21% Southwest, and 18% Rocky Mountain/Midwest. We are according an initial Rank of B.

Gut Issue: Can LPF stabilize and eventually sell Oil Patch properties to shift the asset focus into California and the Pacific Northwest? LPF was created to gain economies of scale and mitigate impact of the Oil Patch recession on properties in Denver, Oklahoma City and Houston. Rents and property net operating income have risen slowly since 1987, and occupancy has risen about 5% to 86% at June 1989. Each 1% increase in rent-paying occupancy adds 2¢-3¢ to EPS. LPF's still-low effective rents of \$6.49/SF overall are about 5% below market rates, giving LRF upside potential as it re-leases space. Based on this and improving occupancies, we project 1990 cash flow at

about 86¢/sh., up about 7.5% from our 1989 expectations.

Current asset value and Advice: LPF's historic cost book value is \$17.87/sh. at June 1989, plus \$1.32/sh. accumulated depreciation. LPF is appraising properties at the end of 1989 but management believes the \$17.87/sh. net asset value is fairly close to true net asset value. That means LPF shares at \$8.38 sell at a 53% discount to value. We see LPF shares as a higher yield (9.6%) play on longer-term recovery. (KDC)

LPF:ASE Rank B Dec. yrs. 6.16 mil. shs.
Price: \$8.38 Div.: \$0.80 Yld.: 9.6% Price X CFS: 10.5

Year	EPS	Op.CFS	Div.	High	Low	Yld.
1987a	\$0.18	\$0.64	\$0.32	NM	NM	NM
1988a	d0.22b	0.36	0.97	\$9.38	\$8.13	9.8-8.5%
1989E	NE	0.80	0.80	9.50	7.13z	11.2-8.4z
1990E	NE	0.86	0.82			

a-Pro forma for predecessors. b-Plus \$0.13/sh. loss on investments. z-To date.

Share data: Institutions own 0.8%; insiders 1.0%. Avg. weekly volume: 21,500 sh. Finances 6/89 (Mil.\$): Debt: \$28.8M; Equity: \$110.0M at cost or \$17.87/sh. Debt/equity ratio: 0.26-1.

Address: 800 El Camino Real, Menlo Park, Cal. 94025. (415) 321-7100.

REAL ESTATE INVEST. TRUST OF CALIF. (RCT:NYSE) RANK B

A smaller equity-oriented trust, RCT owns 28 properties within 90 miles of downtown Los Angeles. Holdings of \$106.4 mil. at cost contain 1.92 mil. SF (96% occupied) and are 50% shopping centers and retail; 25% commercial/industrial; 13% apartment; 10% office; and 2% ground leases. Largest individual holdings are two owned shopping centers, 159,370 SF Santa Fe Springs (Cal.) Ctr.; and LaVerne (Cal.) Towne Ctr., 213,740 SF; plus a loan and land leaseback at 136,000 SF Westminster (Cal.) Plaza. Growth has slowed and we Rank shares at B, above average, and will continue in Portfolio Selector.

Gut Issue: Can RCT regain EPS and CFS momentum? EPS and CFS have grown very slowly the past two years, mainly because all RCT properties were essentially fully leased. RCT sold an office building in 1988 and a small light industrial building in April 1989 in hopes of reinvesting funds in higher potential properties. It has just bought a 42,500 SF community shopping center in Valencia, Cal.

Advice: With low debt and conservative management, you won't be exposed to high risk in RCT. But we estimate total return the next 12 months at 12.3% (8.8% yield, 3.6% cash flow growth), slightly below the average for REITs reviewed this issue. Shs. are for long-term holders. (KDC)

RCT:NYSE Rank B Dec. yrs. 7.34 mil. shs.
Price: \$15.75 Div. \$1.38 Yld. 8.8% Price/X CFS: 11.25

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1986	\$1.17	\$1.32	\$1.28	\$18.25	\$13.50	9.5-7.0%
1987	1.09a	1.32	1.335	20.50	14.25	9.4-6.5
1988	1.13a	1.35	1.35	19.00	15.25	8.9-7.1
1989E	NEa	1.40	1.38	17.00	15.38z	9.0-8.1z
1990E	NE	1.45	1.40			

a-Plus gains on sales: '87-\$0.17; '88-\$0.15. '89-\$0.18 to date. z-To date.

Share data: Institutions own 32.5%; insiders 4.3%. Avg. weekly volume: 24,400 sh. Finances 6/89 (Mil.\$): Debt: \$20.M; Equity: \$84.5M; Accum. deprec.: \$6.6M; Equity + deprec.: \$12.42/sh. Debt/equity ratio: 0.24-1.

Address: 12011 San Vicente Blvd., No. 700, Los Angeles, CA 90049. (213) 476-7793.